TEACHERS' PENSION PLAN

Pension News

INFORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS SUMMER 2006

Shortfall eliminated; pensions unchanged

The Ontario Teachers' Federation (OTF) and the Ontario government will eliminate the funding shortfall in the Teachers' pension plan by increasing contribution rates for working teachers and the Ontario government, beginning next year. Pensions remain the same.

The shortfall developed primarily because the cost of pension benefits increased faster than plan assets, despite strong returns on plan investments. In addition, the plan expects long-term investment returns to be lower in the future.

Pension plans must be fully funded

Ontario's Pension Benefits Act requires pension plans to be fully funded over the long term. For the Teachers' plan, this means having enough assets to pay pensions not only today, but 70 years from now, when today's new teachers may still be collecting benefits.

The January 2005 valuation of the plan, filed with regulators June 30, shows a shortfall of assets compared to liabilities (the estimated cost of future pensions) of $6.1 billion. Collecting more contributions from teachers and the government will close this gap.

By law, the plan must file a valuation with regulators every three years. If plan assets match liabilities, the plan is in balance. If assets are greater than liabilities, the plan has a surplus. If liabilities are greater than assets, the plan has a shortfall.

A shortfall in a filed valuation requires an increase in contributions, a reduction in benefits to be earned in the future, or both to balance the fund. ■

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Teaching after retirement rules change Sept.1

1 Could you recap upcoming changes in the limits?

A window that opened Sept. 1, 2001, to allow for extended teaching closes Aug. 31, 2006. After Aug. 31, we return to permanent plan provisions that limit how much you can teach after retirement without affecting your pension.

Under permanent provisions, you can teach for up to 95 days in each of the first three school years in which you return to teach (these don't need to be consecutive years) and 20 days in each school year after that.

2 How do you define the "first three years"?

After Aug. 31, the first three years:

include school years you taught as a pensioner before the window opened Sept. 1, 2001;

- exclude school years you taught as a pensioner during the five-year window – Sept. 1, 2001, to Aug. 31, 2006, and;
- include school years you teach after Aug. 31, 2006.

3 What if I work for fewer than 95 days during one of the first three years?

Each of the first three school years you teach outside the window uses one of your 95-day years. This applies even if you teach for only one day in a year.

4 What counts as re-employment?

For pension plan purposes, you are considered re-employed in teaching if you:

- work in any capacity for a school board in Ontario;
- work for an organization, such as a teachers' federation, which participates in the plan under a special agreement; or
- teach at a designated private school or for the Ministry of Education.

5 What counts as a day?

All working days count, including paid non-teaching days, such as professional development days and sick days. Statutory holidays should also be included if you are re-employed as a 12-month employee. Do not include days you worked before you retired. For example, if you retire and return to teach in the same school year, the days you worked before you retired do not count toward the limit.

6 What counts as a day for contract employees?

Days count in direct proportion to your contract percentage. For example, if you are on a 50 per cent contract and work half days, you will accumulate one-half day for every calendar day you work. If you are on a 50 per cent contract and

work a full day every other day, you will count a full day for every calendar day you work.

7 How are days counted for hourly employees?

If you are paid by the hour, ask your employer how it reports a normal working day for someone in your position. We recognize a day to be anywhere from 5.5 to nine hours of work. For example, if your employer reports a normal work day as seven hours and you work 105 hours, you will accumulate the equivalent of 15 teaching days (105 hours ÷ 7 hours = 15 days).

8 What happens if I exceed the limit?

You must notify us if you continue to teach the month after you exceed the limit. Your pension will be suspended. It will remain suspended for every month in which you teach, even if for only one day.

9 Can I return to work right after I retire?

Your arrangement to return to work has to be made after the later of the date we receive your pension application or the date of your resignation. A resignation is considered valid only if:

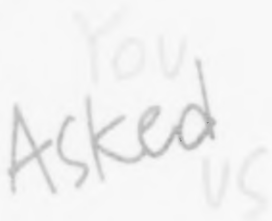
- your employer confirms acceptance of your resignation without condition;
- no arrangement has been made to return to work in education; and
- you have either received or arrangements have been made to pay any applicable gratuity.

10 Do the teaching limits apply after I turn 69?

The teaching limits do not apply to you after Nov. 30 of the calendar year in which you turn 69. After that, you can teach as much as you want without affecting your pension and you will not be allowed to contribute again to the pension plan. ■

More information

- View an audio-visual presentation on re-employment at iAccess Web, the secure members-only section of our website.
- Visit the pension info section on our website at www.otpp.com.



Q Have recent tax changes affected my pension?

A Your after-tax pension may have changed in July because of adjustments in the federal tax rate and exemptions. There was also a small change affecting tax exemptions for Alberta residents. The adjustments changed many after-tax pensions by $2 to $20 a month.

There's nothing you need to do; we've already applied any relevant changes to your pension.

For more information on tax adjustments, please contact the Canada Revenue Agency at:

- 1-800-959-8281; or
- online at www.cra-arc.gc.ca.

Q Where can I get an old copy of Pension News*?*

A Issues from the last five years are available in the publications section of our website at www.otpp.com. Please keep in mind that information in old issues may no longer reflect current plan policies and provisions. ■

Measures introduced to help manage plan's bottom line

In addition to contribution rate increases, the following measures are being introduced to help manage the future financial status of the Teachers' pension plan.

- The Ontario Teachers' Federation (OTF), the Ontario government and pension plan management have committed to a survey this fall to gather member preferences for contribution rate increases vs. benefit changes for working teachers, if a shortfall arises in the future.
- The OTF and the Ontario government have agreed their matching contributions should not exceed 15 per cent of base earnings above the Canada Pension Plan (CPP) limit. The CPP limit, which changes annually, is $42,100 in 2006. If rates must climb higher than 15 per cent to keep the pension plan healthy, the sponsors would consider reducing benefits working teachers will build up in the future.
- The OTF and the Ontario government can improve benefits or reduce contributions only when pension plan assets exceed liabilities (the cost of future benefits) by 10 per cent, up from the current 7.5 per cent requirement. This provides a bigger cushion to avoid funding shortfalls in the future. ■

Fund reaches settlements in two class action suits

The Teachers' pension fund is settling two major class action lawsuits it co-led on behalf of investors.

Earlier this year, it reached a conditional settlement with Nortel Networks Corp. on behalf of investors who purchased Nortel securities and suffered damages as a result of violations of U.S. securities laws during Nortel's 2003 and 2004 fiscal years.

In June, the pension fund co-led an out-of-court settlement against the Williams Companies, Inc., on behalf of investors who purchased Williams securities between July 24, 2000 and July 22, 2002.

The settlements, totalling millions, will be shared among members of the class actions. Investors will be advised, probably through a media campaign by claims administrators, of how to apply for compensation. It is not yet known how much the pension fund will recover.

"U.S. laws have the teeth we need to obtain these kinds of settlements for our members," said Claude Lamoureux, President and CEO of the Teachers' pension plan.

"They allow us to recover at least partial compensation for losses." ■

Pay/performance not linked

Corporate efforts to better link executive pay to company performance aren't working, shows a study conducted by the Teachers' pension plan.

The study of 65 of the 100 largest companies listed on the Toronto Stock Exchange measured the results of compensation structures designed to align CEO compensation with the performance of their companies.

"The study showed CEO compensation in Canada cannot be connected to total stock returns," said Brian Gibson, Senior Vice-President, Public Equities. ■

Funding shortfall: questions and answers

Is my pension secure?

A: Yes, it's not unusual for pension plans to have shortfalls in some decades and surpluses in others. It may be reassuring to know your pension cannot be reduced under Ontario's Pension Benefits Act.

Do other plans have the same problem?

A: A major Ontario pension plan chose to manage its funding problem by making inflation protection on future service conditional on the financial position of the plan. This change has no affect on pensioners. It applies only to benefits working members will accrue in the future.

How did a shortfall develop when the plan is making so much money?

A: During the past five years, the pension fund has earned $13.3 billion more than the markets in which it invests. Despite this excellent performance, future pension costs (or liabilities) have grown faster than plan assets. This is largely the result of low interest rates. When interest rates drop, pension costs rise because more money must be invested today to pay promised pensions in the future.

I thought the pension plan had almost $100 billion in assets?

A: The plan has almost $100 billion in assets and pays retired teachers about $3.4 billion a year. That means the plan has enough money to meet its pension payroll for many years. But pension plans require sufficient assets in 50, 60 and 70 years to pay benefits to current teachers who won't retire until well into the future.

How large is the shortfall?

A: The final 2005 funding valuation, filed with provincial regulators June 30, shows a $6.1 billion shortfall. The shortfall will be eliminated by collecting more contributions from working teachers and the government.

Preliminary valuations showed much larger shortfalls. These valuations assessed the plan's financial status, but did not require any action. A January 2005 preliminary valuation reported a $19.4 billion shortfall. One year later, the shortfall had grown to an estimated $31.9 billion.

The difference in the shortfall reported in the preliminary and final 2005 valuations is due primarily to a change in the expected future return on investments. The final 2005 valuation assumes the plan will achieve a long-term real (after inflation) return on investments of 3.725 per cent vs. 3.10 per cent in the preliminary valuation.

How can the long-term return make such a difference?

A: The assumed future real return is one of the key factors used to determine how much money will be available in the plan to pay promised pensions. Every one per cent change in the assumed rate causes the plan's liabilities to increase or decrease by about 20 per cent.

Hasn't the fund earned a lot more than the assumed rate of return?

A: During the past 15 years, the fund has achieved an average real (after inflation) return of 10.1 per cent a year. While single-digit returns may seem overly conservative, experience over longer terms shows they are not. From 1900 to 2000, only one of 16 countries tracked in a study achieved a real rate of return of more than five per cent, based on a traditional asset mix of 60 per cent equities and 40 per cent bonds. Only seven countries came in higher than four per cent.

Other major Canadian pension plans are expecting future long-term real returns ranging from 3.65 to 4.25 per cent. ■

Five online myths demystified

Don't let a myth stop you from enjoying the benefits of personal pension services. Here are the facts on five concerns you may have about *i*Access Web, the secure members-only section of our website.

Myth 1:
It's not safe to access personal information on the Internet.

FACT: Your personal information is secure on *i*Access Web. We use different layers of security technology to safeguard your information and transactions. In fact, we only register members who use computers with 128-bit encryption, one of the highest forms of security available today. With encryption, plain text and numbers are converted to a scrambled code when transmitted over the Internet, and then translated to a readable format at your computer. We also use third-party verification and authentication for added security.

Myth 2:
There's no point in registering because I'm retired.

FACT: *i*Access Web offers valuable tools and information. For example, you can update your personal information and retrieve a duplicate T4A. You can even track how your pension has grown over the years. (For more benefits, see page 8.)

Myth 3:
It's hard to retrieve a forgotten password or user ID.

FACT: If you forget your password or if your temporary password expires, you can receive a new one by e-mail in an instant. A forgotten user ID can also be retrieved right away. And it's all protected by our security features so you don't have to worry about someone else accessing your information.

Myth 4:
If I sign up, I won't be able to call or visit your office.

FACT: You can sign up for *i*Access Web without giving up a thing. You still can request personal service by phone or in person, or ask us to provide printed publications.

Myth 5:
Getting information online is difficult.

FACT: Research shows most members find it easy to use our online tools and other features. And if you run into trouble, help is only a telephone call away.

How to change the tax deducted from your pension

If you owed the government money when you filed your annual income tax return, consider having more tax deducted from your monthly pension payment. It may be easier to handle the tax hit in smaller doses.

The tax we withhold from your pension is based on government requirements and the personal information you gave us when you retired. If you have other sources of income, we can deduct more tax from your pension.

You can increase the deductions on your own if you're registered for *i*Access Web, the secure members-only section of our website. If you are not registered, consider signing up by calling 416-226-2700 or 1-800-668-0105, or contact us by mail or fax to arrange for extra tax deductions. We require your name, social insurance number and the amount to be deducted, expressed either as a monthly amount or a percentage of your before-tax Teachers' pension.

Deducting less tax

To decrease the tax we deduct, you need to claim additional tax credits. Tax credits apply, for example, if you become disabled, turn age 65, support certain dependants or go back to school. To claim additional tax credits, complete the federal government TD1 form and its provincial counterpart, the TD1ON. You can obtain the forms, which describe the types of credit available, in the publications section of our website at www.otpp.com or from the Canada Revenue Agency.

More information on tax deductions is available from the Canada Revenue Agency at 1-800-959-8281. ■

Denham and Koskie named to pension plan board

The pension plan's Board of Directors has two new assets – Jill Denham and Raymond Koskie.

Jill Denham has worked as a financial services executive for more than 20 years, most recently as Vice-Chair, CIBC Retail Markets.

Named by the *Financial Post* as one of the Top 50 Most Influential Women in Canada for three consecutive years, Jill was also honoured by *U.S. Banker*. The publication named her the eighth most influential female banking executive in North America in 2004.

Jill is a Director of the Foundation Board of the Hospital for Sick Children and the Prostate Cancer Research Foundation. She holds an HBA from the University of Western Ontario, School of Business Administration, and an MBA (Baker Scholar) from Harvard Business School.

Raymond Koskie, like many retired professionals, continues to work, but at a slightly more leisurely pace.

Raymond practised law for more than 40 years before retiring as founding partner of the Toronto-based law firm Koskie Minsky. He continues to work as a government relations consultant.

A member of the Economic Council of Canada from 1986 to 1989, Raymond has published numerous papers on employee benefits and was a principal editor of and contributor to *Employee Benefits Canada*.

The pension plan's board has nine directors who serve for two-year renewable terms. Four of the directors are appointed by the Ontario Teachers' Federation and four by the Ontario government. The two bodies jointly select a chair. ■

Teachers in Ontario are first to apply online for pension

Anne W. was among the first teachers in Canada to apply for her pension online.

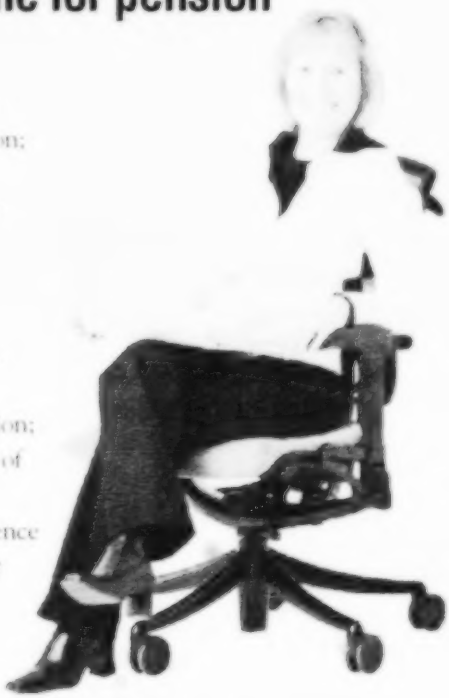
The former elementary school teacher in Scarborough generated personal pension estimates and tapped other resources on *i*Access Web before deciding to retire at the end of June, four months after reaching her 85 factor.

Already 1,600 members, or 40 per cent of teachers who retired this year, have applied for their pensions at *i*Access Web, the secure members-only section of our website.

The new online retirement process was launched six months ago to make it easier for members to plan and complete their retirement. It's believed to be the first such service in Canada.

*i*Access Web provides a safe, easy and convenient way to:

- retrieve a duplicate T4A;
- update your address and other personal information;
- view audio-visual presentations on popular pension subjects, such as survivor benefits, re-employment and inflation protection;
- change the 'extra' tax deducted from your pension;
- view an historical record of pension payments;
- read personal correspondence in your private Document Centre; and
- access forms and other documents. ■



How to register for online pension services

1. Call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.; or
2. Download and complete the *i*Access Web registration form found on our website at www.otpp.com. Just follow the link from the homepage.

Registration requires only five minutes and an active e-mail account.

Pension News

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, Ontario M2M 4H5
Client Services
Phone: 416-226-2700 or 1-800-668-0105
Fax: 416-730-7807 or 1-800-949-8208
E-mail: inquiry@otpp.com
Website: www.otpp.com

We appreciate your comments about anything you read in *Pension News*. Please contact Debra Hanna at 416-730-5351 or 1-877-812-7989 or e-mail: debra_hanna@otpp.com

This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.

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Ontario Teachers' Pension Plan
5650 Yonge St.
Toronto, ON M2M 4H5

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Addendum

After we published the fall 2006 issue of *Pension News*, the federal government announced tax changes of interest to pensioners. Please read this information in conjunction with the newsletter.

Q. What do I need to know about the government's decision to allow pension income splitting?

A. The federal government will allow pensioners to allocate up to one-half of their pension income to their spouse for tax purposes, beginning in 2007.

The decision to allow pension income splitting was announced by the government Oct. 31 as part of a package of tax amendments.

The government has not yet outlined how pension income splitting will work, but it appears pensioners will be able to allocate a portion of their income to their spouse each year when they file their income tax returns. The first such returns would be filed in 2008 for the 2007 tax year.

The change is not expected to affect the way your Teachers' pension is paid or the tax we withhold from your pension.

Pension income splitting may result in tax savings if your spouse's income is lower than yours. For example, if your annual pension income is $40,000 and your spouse earns only $10,000, you could transfer $15,000 to your spouse, thereby equalizing your incomes and reducing your combined taxes.

Q. How will the government decision to increase the age tax credit affect me?

A. The federal government will increase the age credit amount by $1,000 to $5,066, effective retroactively to Jan. 1, 2006.

The age credit is a special tax credit for Canadians aged 65 and older. The government has not yet announced how to claim the additional credit, but we anticipate the following:

- For the current tax year - You will be able to claim the increased credit when you file your 2006 tax return next year.
- For 2007 and later years - We will apply the tax credit to your pension payment if you provide us with a new TD1, or you can claim the tax credit when you file your income tax return each year. The government has not yet revised the TD1 to reflect the increased credit. We suggest you visit our website toward the end of the year for additional information and an updated TD1.

The increase in the age tax credit is expected to save the average retired teacher about $150 a year.

More details will be provided on our website as they become available.
For more information on this and other government tax changes,
visit the Department of Finance website, www.fin.gc.ca